

REGAL BELOIT CORP
Form 10-Q
November 06, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
for the quarterly period ended September 27, 2014
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
Commission file number 001-07283

REGAL BELOIT CORPORATION
(Exact name of registrant as specified in its charter)

Wisconsin
(State of other jurisdiction of
incorporation) 39-0875718
(IRS Employer
Identification No.)
200 State Street, Beloit, Wisconsin 53511
(Address of principal executive office)
(608) 364-8800
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a "smaller reporting company." See the definitions of "large accelerated filer" "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

As of November 4, 2014 there were 44,688,756 shares of the registrant's common stock, \$.01 par value per share, outstanding.

REGAL BELOIT CORPORATION
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CAUTIONARY STATEMENT

Certain statements made in this Quarterly Report on Form 10-Q are “forward-looking statements” intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995.

Forward-looking statements are based on management’s expectations, beliefs, current assumptions, and projections. When used in this Quarterly Report on Form 10-Q, words such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “should,” “project” or “plan” or the negative thereof or similar words are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, assumptions and other factors, some of which are beyond our control, which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Those factors include, but are not limited to:

- actions taken by our competitors and our ability to effectively compete in the increasingly competitive global electric motor, drives and controls, power generation and mechanical motion control industries;
- our ability to develop new products based on technological innovation and marketplace acceptance of new and existing products;
- fluctuations in commodity prices and raw material costs;
- our dependence on significant customers;
- issues and costs arising from the integration of acquired companies and businesses, including the timing and impact of purchase accounting adjustments;
- challenges in our Venezuelan operations, including potential currency devaluations, non-payment of receivables, governmental restrictions such as price and margin controls, as well as other difficult operating conditions;
- our dependence on key suppliers and the potential effects of supply disruptions;
- infringement of our intellectual property by third parties, challenges to our intellectual property and claims of infringement by us of third party technologies;
- product liability and other litigation, or the failure of our products to perform as anticipated, particularly in high volume applications;
- increases in our overall debt levels as a result of acquisitions or otherwise and our ability to repay principal and interest on our outstanding debt;
- economic changes in global markets where we do business, such as reduced demand for the products we sell, currency exchange rates, inflation rates, interest rates, recession, foreign government policies and other external factors that we cannot control;
- unanticipated liabilities of acquired businesses;
- effects on earnings of any significant impairment of goodwill or intangible assets;
- cyclical downturns affecting the global market for capital goods;
- difficulties associated with managing foreign operations; and
- other risks and uncertainties including but not limited to those described in “Risk Factors” in this Quarterly Report on Form 10-Q and from time to time in our reports filed with U.S. Securities and Exchange Commission.

Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this report, and we undertake no obligation to update these statements to reflect subsequent events or circumstances. Additional information regarding these and other risks and factors is included in Part II-Item 1A-Risk Factors in this Quarterly Report on Form 10-Q and in Part I - Item 1A - Risk Factors in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2014.

PART I—FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

REGAL BELOIT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Amounts in Millions, Except Per Share Data)

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net Sales	\$829.8	\$768.2	\$2,481.4	\$2,368.4
Cost of Sales	626.0	571.7	1,872.2	1,763.2
Gross Profit	203.8	196.5	609.2	605.2
Operating Expenses	129.1	117.7	376.1	369.4
Goodwill Impairment	—	—	1.0	—
Total Operating Expenses	129.1	117.7	377.1	369.4
Income From Operations	74.7	78.8	232.1	235.8
Interest Expense	9.8	10.6	30.5	31.9
Interest Income	2.0	1.3	5.4	3.1
Income Before Taxes	66.9	69.5	207.0	207.0
Provision For Income Taxes	18.1	15.0	55.1	48.2
Net Income	48.8	54.5	151.9	158.8
Less: Net Income Attributable to Noncontrolling Interests	1.3	1.9	4.4	5.6
Net Income Attributable to Regal Beloit Corporation	\$47.5	\$52.6	\$147.5	\$153.2
Earnings Per Share Attributable to Regal Beloit Corporation:				
Basic	\$1.06	\$1.17	\$3.27	\$3.40
Assuming Dilution	\$1.05	\$1.16	\$3.25	\$3.38
Cash Dividends Declared Per Share	\$0.22	\$0.20	\$0.64	\$0.59
Weighted Average Number of Shares Outstanding:				
Basic	44.9	45.1	45.1	45.0
Assuming Dilution	45.2	45.4	45.4	45.3

See accompanying Notes to Condensed Consolidated Financial Statements

REGAL BELOIT CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)
 (Dollars in Millions)

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net Income	\$48.8	\$ 54.5	\$151.9	\$ 158.8
Other comprehensive income (loss) net of tax:				
Foreign currency translation adjustments	(17.2	) 6.4	(19.0	) (22.4
Reclassification of foreign currency translation adjustments included in net income, net of immaterial tax effects for the three and nine months ended September 27, 2014	(1.0	) —	(1.0) —
Hedging Activities:				
Change in fair value of hedging activities, net of tax effects of \$(2.2) million and \$2.6 million for the three months ended September 27, 2014 and September 28, 2013, and \$(3.5) million and \$(3.0) million for the nine months ended September 27, 2014 and September 28, 2013, respectively	(3.7	) 4.4	(5.7	) (4.8
Reclassification adjustment for losses included in net income, net of tax effects of \$0.4 million and \$2.5 million for the three months ended September 27, 2014 and September 28, 2013, and \$3.6 million and \$3.4 million for the nine months ended September 27, 2014 and September 28, 2013, respectively	0.8	4.0	5.9	5.5
Defined benefit pension plans:				
Increase in prior service cost and unrecognized loss, net of immaterial tax effects for the nine months ended September 27, 2014	—	—	(0.5) —
Reclassification adjustments for pension benefits included in net income, net of tax effects of \$0.3 and \$0.4 million for the three months ended September 27, 2014 and September 28, 2013, and \$0.7 million and \$0.7 million for the nine months ended September 27, 2014 and September 28, 2013, respectively	0.5	0.5	1.2	1.1
Other comprehensive income (loss)	(20.6	) 15.3	(19.1	) (20.6
Comprehensive income	28.2	69.8	132.8	138.2
Less: Comprehensive income attributable to noncontrolling interest	0.6	2.8	2.8	5.5
Comprehensive Income Attributable to Regal Beloit Corporation	\$27.6	\$ 67.0	\$130.0	\$ 132.7

See accompanying Notes to Condensed Consolidated Financial Statements

REGAL BELOIT CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in Millions, Except Per Share Data)

	September 27, 2014	December 28, 2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$327.3	\$466.0
Trade Receivables, less allowances of \$12.8 million in 2014 and \$11.5 million in 2013	545.7	463.8
Inventories	681.7	618.7
Prepaid Expenses and Other Current Assets	116.5	130.6
Deferred Income Tax Benefits	47.5	46.8
Total Current Assets	1,718.7	1,725.9
Net Property, Plant and Equipment	572.0	573.4
Goodwill	1,126.3	1,081.9
Intangible Assets, net of Amortization	234.9	244.2
Other Noncurrent Assets	19.5	18.1
Total Assets	\$3,671.4	\$3,643.5
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable	\$347.9	\$304.6
Dividends Payable	9.8	9.0
Hedging Obligations	7.8	11.3
Accrued Compensation and Employee Benefits	90.6	85.6
Other Accrued Expenses	128.2	132.0
Current Maturities of Debt	8.3	158.4
Total Current Liabilities	592.6	700.9
Long-Term Debt	668.6	609.0
Deferred Income Taxes	144.9	140.3
Hedging Obligations	14.0	16.8
Pension and Other Post Retirement Benefits	40.0	39.7
Other Noncurrent Liabilities	34.6	34.4
Commitments and Contingencies (see Note 12)		
Equity:		
Regal Beloit Corporation Shareholders' Equity:		
Common Stock, \$.01 par value, 100.0 million shares authorized, 44.7 million shares and 45.1 million shares issued and outstanding in 2014 and 2013, respectively	0.4	0.5
Additional Paid-In Capital	889.9	916.1
Retained Earnings	1,318.1	1,199.4
Accumulated Other Comprehensive Loss	(77.3	) (59.8
Total Regal Beloit Corporation Shareholders' Equity	2,131.1	2,056.2
Noncontrolling Interests	45.6	46.2
Total Equity	2,176.7	2,102.4
Total Liabilities and Equity	\$3,671.4	\$3,643.5

See accompanying Notes to Condensed Consolidated Financial Statements.

REGAL BELOIT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)
(Dollars in Millions, Except Per Share Data)

	Common Stock \$.01 Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interests	Total Equity
Balance as of December 29, 2012	\$0.4	\$903.3	\$1,115.0	\$ (65.3)	\$43.1	\$1,996.5
Net Income	—	—	153.2	—	5.6	158.8
Other Comprehensive Loss	—	—	—	(20.5)	(0.1)	(20.6)
Dividends Declared (\$0.59 per share)	—	—	(26.6)	—	—	(26.6)
Stock Options Exercised, including income tax benefit and share cancellations	0.1	1.4	—	—	—	1.5
Share-based Compensation	—	8.3	—	—	—	8.3
Purchase of Subsidiary Shares from Noncontrolling Interest	—	—	—	1.1	(2.8)	\$(1.7)
Balance as of September 28, 2013	\$0.5	\$913.0	\$1,241.6	\$ (84.7)	\$45.8	\$2,116.2
	Common Stock \$.01 Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interests	Total Equity
Balance as of December 28, 2013	\$0.5					